

**Family Care Financial Summary**  
**Three Months Ending March 31, 2011**  
**(Report Date: June 28, 2011)**

**Background**

- As of the end of the March 31, 2011, financial reporting period, the Family Care program will be a \$1.1 billion program, when annualized for the full 2011 calendar year.
- The program has experienced a 24.6% growth in total capitation payments and a 23.3% growth in member months during the first three months of 2011, compared to the same period in 2010.
- Six of the MCOs have reported a surplus, while two additional MCOs will have experienced a surplus for this reporting period once they have fully accounted for all retrospective capitation revenues. Only four MCOs reported surplus results for the same period in 2010.
- This improvement in financial results is consistent with the Department's expectation of increased financial stabilization during the second and third years after the program's expansion into a given service region.
- The one MCO that remains in a deficit position, and which is also beyond the 3-year transition period, is under close oversight by both DHS and the OCI. Corrective measures have been put in place, and agency staff are actively monitoring performance to ensure that operational and financial goals are met.
- The composite, year-to-date Family Care program surplus of \$3.3 million (1.2%) compares to a gain of \$1.1 million (.5%) through the first three months of 2010. While the overall Family Care program is in a modestly positive position with respect to operations, MCOs that are not yet compliant with the program's capital requirements are receiving additional oversight until their stability is achieved.
- The Department continues to evaluate differences in financial results that have been experienced by the pilot county-based MCOs and the MCOs that are newer to the Family Care program.

**Key Metrics**

- *Capitation:* The average capitation revenue increased by 1.1%, on a per member per month (PMPM) basis, relative to the first three months of 2010. The increase reflects the slowed enrollment growth and stabilization after a two-year period of rapid expansion and does not include the quarterly retrospective adjustment. The increase also reflects a series of policy actions taken by the Department to limit capitation growth.
- *Member services:* There was a 2.5% increase in overall member services costs, expressed on a PMPM basis, relative to the same time period in 2010. The increase generally results from additional expansion and transition of members from the waiver programs to the Family Care program since the quarter ending March 31, 2010. Service costs generally decline over time to reflect the Family Care program model of cost effective, member-centered, care planning. MCOs will continue to implement strategies laid out in their 2011 business plans to achieve the historical Family Care program experience.
- *Care Management:* Year-to-date results reflect a 0.3% decrease in care management costs, on a PMPM basis, since the quarter ending March 31, 2010. The reported decrease includes a change in accounting method implemented by one MCO to more accurately reflect administrative expenses included in care management, an increase to that MCO's care management PMPM. The percentage of total revenue spent on direct care (i.e., care management and member services combined) increased by 0.5%, relative to the same time period in 2010. Eight of the nine MCOs are achieving, or close to achieving, the long-run Family Care program averages.
- *Administration:* The program continues to achieve administrative savings, with greater than 95% of funding used to support member services. The cost to administer the program decreased by 20.7%,

on a PMPM basis, relative to the same period in 2010. This is largely a result of the economies of scale that are achieved when fixed costs are spread across a larger number of enrollees. MCOs have also generated savings by contracting for claims processing under the Department's master contract, a pooled purchasing approach to administrative services, and through MCO-specific initiatives to achieve other administrative efficiencies.

- *Net Income*: Net income for the Family Care program was \$3.3 million for the quarter ending March 31, 2011. As noted above, this compares to a gain of \$1.1 million for the first three months of the same reporting period in the prior year but does not reflect the full revenue achieved through the retrospectively-adjusted capitation rate.
- *Solvency*: MCO Working Capital improved by \$10 million since the quarter ending March 31, 2010 while the requirement increased from a 2.5% to 3% of annual budgeted capitation effective January 1, 2011. As of March 31, 2011, total Working Capital is negative \$4 million. The Department is closely monitoring the Working Capital of five MCOs with negative positions to ensure 2011 trends improve in alignment with the 2011 business plan projections (2011 budgets). As of March 31, 2011, Restricted Reserves are fully funded by six of nine, five original pilot MCOs and one new expansion MCO, with total funding at 90.8% of requirements. The MCO Solvency fund, a pooled and segregated fund held by the Department of Administration (DOA), is within \$1.26 million of full funding with five MCOs currently meeting the requirements and the four remaining MCOs meeting funding plans approved by the OCI. Overall, the MCOs have funded 81.4% of their Solvency Fund requirements with plans to achieve full funding by December 31, 2012 on track. MCOs that do not meet the capital requirements are under fiscal corrective action that requires monthly financial reporting.

### **More Recent Developments**

- Four MCOs had projected unsustainable losses in 2011, and were asked to make changes in their operating strategies prior to final contracting. The MCOs are working closely with Department staff to ensure that their strategies achieve their goals. Six-month permits were issued by OCI. All MCOs have achieved been re-permitted for the second half of 2011.
- The Department continues to work closely with OCI on monitoring and regulating MCO financial operations. OCI issued reports for the three financial examinations that were conducted in 2010. MCO responses to the findings are under review, or pending submission. DHS will closely monitor the activity related to correcting any issue that was identified during those exams. One examination has been conducted in 2011, and OCI staff will conduct two additional examinations this year.
- The APS Healthcare report studying the finances of the Family Care program was released early in 2011. The evaluation focused on the adequacy and precision of the current capitation rate methodology. It also identified several long-range options to address the timeline that MCOs may need to fully satisfy the program's capital requirements.
- A comprehensive Family Care program audit by the Legislative Audit Bureau was completed and issued in April 2011. The report recommended follow-ups on rate setting, program and fiscal oversight, and identification of program evaluation metrics to support a better understanding of the fiscal sustainability and cost-effectiveness of the Family Care program. The recommendations have been incorporated into the Department's work plans for 2011.
- The Department anticipates that several MCOs will be removed from corrective action during 2011, after meeting and sustaining their 2011 capital requirements and demonstrating ongoing program stability.

**Family Care**  
**MCO Financial Statement Summaries**  
**YTD for Period Ending March 31, 2011**

	SFCA	CCCW	LCD	WWC	MCDFC	CCI	CWF	CHP-LTS	NB	Total
<b>Revenue</b>										
Capitation	14,167,167	24,799,577	21,541,742	25,211,403	61,184,501	68,441,597	31,023,798	12,041,388	16,651,754	275,062,927
Other DHS Funding										0
Interest Income- Operating Acct		37,638		20,066					27,009	84,713
Risk Sharing Accrual						2,108,407				2,108,407
Other Retro Adjustments, DHS	276,091		1,473,000	300,000	945,211	507,868	300,000		1,065,488	4,867,658
Other Income	12,492	31,992	62,317	152	(8,311)					98,642
<b>Total Service Revenue</b>	<b>14,455,750</b>	<b>24,869,207</b>	<b>23,077,059</b>	<b>25,531,621</b>	<b>62,121,401</b>	<b>71,057,871</b>	<b>31,323,798</b>	<b>12,041,388</b>	<b>17,744,251</b>	<b>282,222,346</b>

<b>Expenses</b>										
Member Service Expenses	12,816,172	22,718,699	21,313,458	23,565,897	58,898,843	67,782,914	30,907,069	12,415,248	15,295,556	265,713,857
Cost Share, Net	(262,608)	(433,970)	(489,381)	(664,775)	(2,293,421)	(1,131,487)	(449,485)	(128,150)	(245,338)	(6,098,615)
Room & Board, Net	(1,114,225)	(2,148,273)	(1,809,958)	(1,848,936)	(4,142,588)	(6,044,137)	(3,092,787)	(1,027,135)	(1,263,892)	(22,491,931)
Spend Down & Third Party	(25,993)	(197,758)	(199,176)	(79,041)	(360,668)	(409,233)	(236,862)	(28,333)	(32,761)	(1,569,825)
<b>Net Member Services Costs</b>	<b>11,413,347</b>	<b>19,938,698</b>	<b>18,814,943</b>	<b>20,973,145</b>	<b>52,102,166</b>	<b>60,198,057</b>	<b>27,127,935</b>	<b>11,231,629</b>	<b>13,753,565</b>	<b>235,553,485</b>
Net Care Management Costs	1,714,097	3,685,116	2,731,915	3,673,142	7,440,672	7,361,484	3,156,452	1,534,600	2,528,069	33,825,547
Administrative Expenses	871,911	1,246,284	1,036,383	1,266,226	2,412,974	1,719,291	1,667,131	601,437	869,021	11,690,658
<b>Total Operating Expenses, CY</b>	<b>13,999,355</b>	<b>24,870,097</b>	<b>22,583,241</b>	<b>25,912,513</b>	<b>61,955,812</b>	<b>69,278,833</b>	<b>31,951,518</b>	<b>13,367,667</b>	<b>17,150,655</b>	<b>281,069,691</b>
<b>Income (Loss) from Operations, CY</b>	<b>456,394</b>	<b>(890)</b>	<b>493,818</b>	<b>(380,892)</b>	<b>165,589</b>	<b>1,779,038</b>	<b>(627,720)</b>	<b>(1,326,279)</b>	<b>593,596</b>	<b>1,152,656</b>

<b>Other (Revenue)/Expense, Ordinary</b>										
Total Other (Revenue)/Expense	(70,261)	(8,149)	(153,370)	(29,399)	(1,234,362)	41,292	(344,645)	(327,917)	(1,407)	(2,128,217)
<b>Net Surplus/(Deficit)</b>	<b>526,655</b>	<b>7,259</b>	<b>647,188</b>	<b>(351,493)</b>	<b>1,399,951</b>	<b>1,737,746</b>	<b>(283,075)</b>	<b>(998,362)</b>	<b>595,003</b>	<b>3,280,873</b>

<b>Member Months</b>	<b>5,375</b>	<b>8,692</b>	<b>7,650</b>	<b>10,124</b>	<b>22,765</b>	<b>21,144</b>	<b>9,520</b>	<b>3,532</b>	<b>5,727</b>	<b>94,528</b>
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<b>Key Ratios (as % of Revenue)</b>										
Member Service Expense, Net	79.0%	80.2%	81.5%	82.1%	83.9%	84.7%	86.6%	93.3%	77.5%	83.5%
Care Management Service Expense	11.9%	14.8%	11.8%	14.4%	12.0%	10.4%	10.1%	12.7%	14.2%	12.0%
Total Member Service Expense	90.8%	95.0%	93.4%	96.5%	95.8%	95.1%	96.7%	106.0%	91.8%	95.4%
Administrative Expense	6.0%	5.0%	4.5%	5.0%	3.9%	2.4%	5.3%	5.0%	4.9%	4.1%
Total Operating Expense	96.8%	100.0%	97.9%	101.5%	99.7%	97.5%	102.0%	111.0%	96.7%	99.6%
Net Surplus/(Deficit)	3.6%	0.0%	2.8%	-1.4%	2.3%	2.4%	-0.9%	-8.3%	3.4%	1.2%

**Notes**

- CCCW expanded to one additional county on January 1, 2011.
- Revenue estimates for case mix adjustments were not accurately reflected by all MCOs. DHS estimates additional revenue of approximately \$2 million through March 31, 2011.

**MCO Financial Statement Summaries**  
**YTD for Period Ending March 31, 2011**

	SFCA	CCCW	LCD	WWC	MCDFC	CCI	CWF	CHP-LTS	NB	Total
<b>PMPMs</b>										
<b>Revenue</b>										
Capitation	2,635.75	2,853.15	2,815.91	2,490.26	2,687.71	3,236.93	3,258.97	3,408.82	2,907.59	2,909.84
Other DHS Funding	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Interest Income- Operating Acct	0.00	4.33	0.00	1.98	0.00	0.00	0.00	0.00	4.72	0.90
Risk Sharing Accrual	0.00	0.00	0.00	0.00	0.00	99.72	0.00	0.00	0.00	22.30
Other Retro Adjustments, DHS	51.37	0.00	192.55	29.63	41.52	24.02	31.51	0.00	186.05	51.49
Other Income	2.32	3.68	8.15	0.02	(0.37)	0.00	0.00	0.00	0.00	1.04
<b>Total Service Revenue</b>	<b>2,689.44</b>	<b>2,861.16</b>	<b>3,016.61</b>	<b>2,521.89</b>	<b>2,728.87</b>	<b>3,360.66</b>	<b>3,290.49</b>	<b>3,408.82</b>	<b>3,098.35</b>	<b>2,985.58</b>
<b>Expenses</b>										
Member Service Expenses	2,384.40	2,613.75	2,786.07	2,327.73	2,587.31	3,205.78	3,246.71	3,514.66	2,670.78	2,810.94
Cost Share	(48.86)	(49.93)	(63.97)	(65.66)	(100.75)	(53.51)	(47.22)	(36.28)	(42.84)	(64.52)
Room & Board	(207.30)	(247.16)	(236.60)	(182.63)	(181.98)	(285.86)	(324.89)	(290.77)	(220.69)	(237.94)
Spend Down & Third Party	(4.84)	(22.75)	(26.04)	(7.81)	(15.84)	(19.35)	(24.88)	(8.02)	(5.72)	(16.61)
<b>Net Member Services Costs</b>	<b>2,123.41</b>	<b>2,293.91</b>	<b>2,459.47</b>	<b>2,071.63</b>	<b>2,288.75</b>	<b>2,847.05</b>	<b>2,849.72</b>	<b>3,179.58</b>	<b>2,401.53</b>	<b>2,491.88</b>
<b>Net Care Management Costs</b>	<b>318.90</b>	<b>423.97</b>	<b>357.11</b>	<b>362.82</b>	<b>326.85</b>	<b>348.16</b>	<b>331.58</b>	<b>434.43</b>	<b>441.43</b>	<b>357.83</b>
Administrative Expenses	162.22	143.38	135.47	125.07	106.00	81.31	175.13	170.26	151.74	123.67
<b>Total Operating Expenses, CY</b>	<b>2,604.53</b>	<b>2,861.26</b>	<b>2,952.06</b>	<b>2,559.51</b>	<b>2,721.60</b>	<b>3,276.52</b>	<b>3,356.43</b>	<b>3,784.28</b>	<b>2,994.70</b>	<b>2,973.39</b>
<b>Income (Loss) from Operations, CY</b>	<b>84.91</b>	<b>(0.10)</b>	<b>64.55</b>	<b>(37.62)</b>	<b>7.27</b>	<b>84.14</b>	<b>(65.94)</b>	<b>(375.46)</b>	<b>103.65</b>	<b>12.19</b>
<b>Other (Revenue)/Expense, Ordinary</b>										
Total Other (Revenue)/Expense	(13.07)	(0.94)	(20.05)	(2.90)	(54.22)	1.95	(36.20)	(92.83)	(0.25)	(22.51)
<b>Net Surplus/(Deficit)</b>	<b>97.98</b>	<b>0.84</b>	<b>84.60</b>	<b>(34.72)</b>	<b>61.50</b>	<b>82.19</b>	<b>(29.74)</b>	<b>(282.63)</b>	<b>103.89</b>	<b>34.71</b>
<b>Member Months</b>	<b>5,375.00</b>	<b>8,692.00</b>	<b>7,650</b>	<b>10,124</b>	<b>22,765</b>	<b>21,144</b>	<b>9,520</b>	<b>3,532</b>	<b>5,727</b>	<b>94,528</b>

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**YTD for Period Ending March 31, 2011**

	SFCA	CCCW	LCD	WWC	MCDFC	CCI	CWF	CHP-LTS	NB	Total
<b>Solvency Protection</b>										
<b>Working Capital</b>										
Current Assets	14,373,590	18,025,335	24,413,216	20,561,284	55,317,374	49,940,329	21,472,628	7,025,255	11,825,429	222,954,442
Current Liabilities	11,809,297	20,223,504	21,278,576	17,844,418	44,084,809	56,488,484	27,226,465	14,423,032	13,831,528	227,210,113
Working Capital	2,564,293	(2,198,169)	3,134,640	2,716,866	11,232,566	(6,548,155)	(5,753,837)	(7,397,777)	(2,006,099)	(4,255,672)
Requirement	1,824,217	3,343,020	2,814,924	3,180,582	7,823,863	8,868,541	3,915,077	1,583,796	2,161,567	35,515,587
Excess/(shortage)	740,076	(5,541,189)	319,716	(463,716)	3,408,703	(15,416,696)	(9,668,914)	(8,981,573)	(4,167,666)	(39,771,259)
<b>Restricted Reserve</b>										
Current Restricted Reserve	1,609,111	2,424,915	1,939,006	2,061,598	3,608,389	4,493,005	1,727,337	250,856	800,000	18,914,216
Required	1,608,072	2,114,340	1,938,308	2,060,194	3,607,954	3,956,180	2,305,026	1,527,932	1,720,522	20,838,528
Excess/(shortage)	1,039	310,575	698	1,404	435	536,825	(577,689)	(1,277,076)	(920,522)	(1,924,312)
<b>Solvency Fund</b>										
Current Solvency Fund	500,113	750,000	750,000	750,000	750,000	750,000	500,000	75,000	668,830	5,493,943
Required	750,000	750,000	750,000	750,000	750,000	750,000	750,000	750,000	750,000	5,250,000
Excess/(shortage)	(249,888)	0	0	0	0	0	(250,000)	(675,000)	(81,170)	(1,256,057)
Equity	5,531,553	2,832,536	6,992,033	6,096,619	14,654,527	6,850,085	22,649	(7,071,921)	(321,983)	35,586,098